Urgent Call for True-Friendships: An Empirical Test for Co-Operative

Aries Heru Prasetyo*, Wei Lo**, Jersan Hu*** and Anthony Kuo****

Aiming to identify antecedents for long-term orientation in co-operative organization, the study conducted two analyses. For the first part, the study conducted critical review among several academic works to find clear direction regarding the phenomenon. One pivotal finding from this phase would be the use of true-friendship as basis. Addressing dialectical theory of friendship, the study appointed three possible candidates: trust, commitment and loyalty. Moreover, dialectical process signaled to have strong relationship with true-friendship and long-term orientation. Putting all together, the study proposed one research model which consists of six hypotheses. The second part of the study was performing Structural Equation Modeling with LISREL to test the model empirically. Having achieved Goodness of Fit Index up to 0.977, the study confirmed that trust, commitment and loyalty do have positive relationship with the true-friendship on its accordance with long-term orientation. Lastly, the role of dialectical process had successfully identified but only in the creation of long-term orientation, thus leaving one concept for future agenda.

JEL Codes: M5, M10, M14, Q13

1. Introduction

Recent research on third sector economy showed that the power of society tend to provide an ideal counterweight for any inequity in terms of economies welfare. In many countries, NPO as well as cooperative organization began to exemplify its contribution to the nation’s economy (Deller et al., 2009; Feinberg and Ataur Rahman, 2006; Flenery and Frame, 2006; Goddard, 2002; Saegert and Winkel, 1998). This has triggered many attentions from scholars. Using Google scholar as database, from 1988-2015 there are at least 2,820,000 academic works including journals, books, cases and working papers with 7.7% increase annually. Though the numbers considerably low compare to other field of works, but the plethora of studies signaled that this theme should be analyzed from different perspective. The ultimate goal would be a firm-theoretical framework as basis for future development.

As one of the branch from third sector economy, more papers tried to posits impactful finding regarding co-operative organization, even though it rarely noted in economic literature (Novkovic, 2008; Novkovic and Power, 2005; Cook, 1995; Sexton, 1990). Co-operative organization has no longer recognized as the youngest child but more to future economic driver. Therefore, scholars tried to adopt some modern concept in order to establish firmly guidance for co-operative management (Defourny and Nyssens, 2013; Bachiega and Borzaga, 2003). Uniquely, most research appointed human factor as the

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Prasetyo, Lo, Hu & Kuo

basis for competitiveness (Fletcher et al., 2003; Bills and Glennerster, 1998). Moreover, reassertion of values and cultural solidarity tend to provide strong commitment to develop the organization (Svendsen and Svendsen, 2004). Yet, this acknowledged the pivotal role of friendship.

Underpinning the previous works, one might conclude that long-term friendships tend to be the most powerful engine for co-operative and others third sector organization. This is unique since the other type of organization seems to pose more on employer-labor relationship. Aiming to uncover that phenomenon, the study tried to pose the application of two popular theories: theory of friendship and social exchange theory to identify some possible antecedents for friendship on co-operative organization. Having proposed six hypotheses, the empirical test was taken to find any proper evidence for future generalization. Details for research method used in the study is described on section three. While section four provide discussion and enclosed with conclusion and directions for future agenda.

2. Literature Review

2.1 Theory of Friendship

Describing theory of friendship must begin with two seminal articles proposed by Wright (1978) and Rawlins (1992). The 1978 theory of friendship was built upon paradigm of self-conception. Friendship was seen as manifesto of one’s sense of individuality which then converted into the needs to build up relations with others. It involves investment, in which every party have to provide voluntary interdependence and personalized concern one another. The mutual understanding leads to empowering one another to maintain this long-term relation. Further development of this theory inclusively emphasized the role of trust through intimate self-disclosure, and loyalty (Tesch, 1983).

Trust-in terms of friendship was understood as outcome from series of dialectic process among party. Therefore, the first theory was then expanded into dialectical theory of friendship by Rawlins (1992). Compared to the previous works, the new insight emphasized more on the process where friendship needs to deal with complex set of challenges arose from dialectical contradictions. Yet, at the end of cycle, each party will compromised to achieve one agreement. This is actually the origin of future friendship. Furthermore, the agreed-point is then acknowledged as basis for long-term orientation.

Relating the concept of friendship on social-organizational context is meaningful due to three reasons: (1) the spirit of togetherness, (2) social orientation goals and, (3) high efficiency matters (Gambetta, 2000). Referring to the works done Okoe et al. (2016), Yang et al.(2012), by Nordlund and Garvill (2002), most of social-motive was triggered by a personal norm which further developed along all ages. Putting pro-environmentalism as a norm, the paper briefly provide evidence on how knowledge that instituted from a true friendship might affect the original paradigm. This is the strongest signal for dialectical process between individual and organization. At the early stage, a member of co-operative organization might posit things that only benefited themselves. But as the dynamic process continued the sense of trust, mutual-belonging (also called loyalty) and experience might develop into a true-friendship which then produces a long term orientation. Moreover, as all member shares the same spirits, then the long-term
orientation may have impact to future cooperation, thus improving the performance of the organization.

The previous discussion had culminated on addressing the role of trust, commitment and loyalty as the antecedents of friendships. Therefore the study proposed the hypothesis as follows:

H1: Trust has positive affect on friendships in co-operative organization.
H2: Commitment has positive affect on friendships in co-operative organization.
H3: Loyalty has positive affect on friendships in co-operative organization.

2.2 Social Exchange Theory

Social exchange theory was first developed by Blau (1964). The theory had stressed more on how human develop their future relationship. Using one-classic 1959 stories, Thibaut and Kelley (1999) emphasized that vital point of the organizational context is how each party can achieve its maximum happiness. If the term applied on social context, then the happiness must be defined for the entire stakeholder, means that in having the real exchange, one party must sacrifice for the happiness of the other, vice versa.

Presenting the exchange theory in co-operative organization would be plausible. As a third sector organization, co-operative movement relied on member productivity. Sense of trust, commitment and loyalty had emphasized as the triggering factor for long-term orientation (Zeuli and Cropp, 2007). But how that performs is still inclusive.

Former research found that in many cases, co-operative has been managed with the same platform as the private-own enterprise (Beaubien and Rixon, 2012; Sias, 2005). Although the finding is still debatable, but using private-sector determinant will plausibly eliminates the original character of co-operative organization. Referring to International Cooperative Alliance Congress in 1995, cooperative organization shares several points: (1) autonomous association, (2) united voluntarily, (3) aiming for common economic, social and cultural needs, (4) jointly owned and (5) democratically-controlled (Prakash, 2003). In that sense, it is cleared that the way co-operative is managed should be different from the other sector.

While delving from its roots, co-operative movement must be acknowledged as true example of social exchange theory, in which one member should contribute to the other member. The term exchange must be defined in sense of mutual-benefit among the stakeholder. Again, it takes trust, commitment and loyalty to light up the spirits. Therefore having considered the three elements as antecedents of friendship, the study tried to build connection between friendship and long term orientation. This was believed as one of key indicator for co-operative performance from the perspective of stakeholders.

H4: Friendship has positive affect on long-term orientation in co-operative organization.

The study also signaled the role of dialectical of friendship along the process. Since social exchange theory emphasized on the intimacy that build trust, commitment and loyalty, then it is crucial to address any potential impact from dialectic process. Conceptually, there are two contextual dialectics: (1) between private and public matters and (2) between the ideal and the real (Rawlins, 1992). Friendship goes beyond understanding
each other. It takes sacrifice and investment to direct one friendship into long-term orientation. Failure in having productive reflection during dialectical process might leads to the breaking-up ties. Conversely, if both parties willing to manage the dialectical process effectively then they will able to minimize the probability of conflicts. This will create long-term orientation.

Applying the logic unto co-operative context, one might see that the larger the number of members would require more complex dialectical process. Therefore management of the organization needs to pay attention to the process in order to provide conducive atmosphere to light up the spirits of togetherness as well as achieving the common goods of the stakeholder. Considering the role of dialectical process, the study proposed hypotheses as follows:

H5: Dialectical process has positive impact to friendship thus affecting long term orientation in co-operative organization.
H6: Dialectical process has positive impact to long term orientation in co-operative organization.

2.3 Research Model

Having considered all relevant theory and concept, the study proposed the following framework (figure 1) as research model. Begin with positing three antecedents for friendship consists of trust, commitment and loyalty, the study tried to analyze the role of friendship in creating long-term orientation. At the same time, the study used dialectical as mediating variable to both friendship and long-term orientation dimensions. The purpose of this steps are to provide evidence on how co-operative should be manage by addressing unique characteristics which come from the power of members.

Figure 1: Research framework
3. Research Model

3.1 Measurement

The study followed systematic procedure proposed by Churchill (1979) and Hinkin (1995) especially to develop construct and measurement item for loyalty, friendship and long term orientation. Once the questionnaire collected, the coefficient of Cronbach alpha, the item-to-total correlation and both exploratory-confirmatory factor analyses were used to purify the measurement items. All final construct can be seen on appendix.

The trust and commitment construct measures were derived from Paine (2003). The dialectical construct was drawn from Paine (2003) and Rawlins (1992). All previous mentioned constructs and items were measured using seven-point Likert-type scales.

The first step of the survey was to develop construct for loyalty, friendship and long term orientation. A clear definition of the true friendship was derived from Rawlins (1992) and Sivertsen (2003). Similar scales of loyalty, friendship and long term orientation were reviewed and modified to develop the initial item pool. Consequently, an initial item pool of 18 measurement items was obtained. A convenience sample of 160 co-operative members who joined workshop on risk managements were invited to participate in the survey. A total of 129 questionnaires were completed and returned, representing a response rate of 80.63%. Of the respondents, 69% were male with average age of 45.87 years. An exploratory factor analysis was used to filter the 18 initial measurement items and one factor model was suggested by a scree plot. The authors then deleted items with a factor loading below 0.6 (Sharma, 1996; Johnson and Wichern, 2016) to produce 8 items.

As suggested by the two previous researches (Churchill, 1979 and Hinkin, 1995), the developing procedure of measure in this study was repeated until satisfactory results were achieved. After performing the first test, a focus group consisted of several expertise was held in order to have their opinion regarding the measurement items. Furthermore, the questionnaire was then translated into the local language and retested twice for consistency. All final questionnaires which covered the construct for trust, commitment, loyalty, friendship, dialectical process and long term orientation was distributed to 260 respondents who were attending two local workshops on business model in West Kalimantan, Indonesia. 228 questionnaires were completed and return, representing a response rate of 89.53%. Of the respondents, 42% were female, 89.65% married, having average age of 47.8 years and a mean personal income of IDR 60,000,000 annually.

3.2 Model Test

Once all 228 questionnaires completed and return, the study performed reliability and validity test for each operational measurement. The results can be seen on table 1.
Table 1: Operational measurement and validity-reliability results

<table>
<thead>
<tr>
<th>Item</th>
<th>Cronbach Alpha</th>
<th>Factor loading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>T1. This credit unions treats member fairly and justly</td>
<td>0.886</td>
<td>0.855</td>
</tr>
<tr>
<td>T2. Whenever the credit unions makes an important decision,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>I’m sure that it will benefited me</td>
<td></td>
<td>0.803</td>
</tr>
<tr>
<td>T3. This credit unions keep on their mission</td>
<td></td>
<td>0.845</td>
</tr>
<tr>
<td>Commitment:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C1. This credit unions and members are trying to maintain a</td>
<td>0.862</td>
<td>0.855</td>
</tr>
<tr>
<td>long-term commitment to achieve the goals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C2. Compared to other organizations, I value my relationship</td>
<td></td>
<td>0.886</td>
</tr>
<tr>
<td>with this credit unions more</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C3. I would rather work together with this credit unions than not</td>
<td></td>
<td>0.878</td>
</tr>
<tr>
<td>Loyalty:</td>
<td>0.760</td>
<td></td>
</tr>
<tr>
<td>L1. I feel a sense of loyalty to this credit unions</td>
<td></td>
<td>0.848</td>
</tr>
<tr>
<td>L2. I love to share my appreciation to this credit unions with</td>
<td></td>
<td>0.858</td>
</tr>
<tr>
<td>others</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Friendship:</td>
<td>0.749</td>
<td></td>
</tr>
<tr>
<td>F1. The credit unions and me benefit from the relationship</td>
<td></td>
<td>0.844</td>
</tr>
<tr>
<td>F2. I feel that members are important to this credit unions</td>
<td></td>
<td>0.854</td>
</tr>
<tr>
<td>Dialectical process:</td>
<td>0.861</td>
<td></td>
</tr>
<tr>
<td>D1. Most members are enjoy giving others aid</td>
<td></td>
<td>0.869</td>
</tr>
<tr>
<td>D2. I feel that every changes made were aiming for future</td>
<td></td>
<td>0.807</td>
</tr>
<tr>
<td>development</td>
<td></td>
<td></td>
</tr>
<tr>
<td>D3. I’m still eager to contribute more to this credit unions even</td>
<td></td>
<td>0.859</td>
</tr>
<tr>
<td>when their policy is different from my opinion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long term orientation:</td>
<td>0.709</td>
<td></td>
</tr>
<tr>
<td>LTO1. I’m willing to sacrifice for long term common goods of this</td>
<td>0.880</td>
<td></td>
</tr>
<tr>
<td>credit unions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LTO2. I’m willing to take part in every activities to prolong this</td>
<td>0.780</td>
<td></td>
</tr>
<tr>
<td>credit unions</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: data process output

From table 1, the authors can see that each measurement has factor loading more than 0.6 with Cronbach Alpha ranging from 0.709 to 0.886, means that the operational measurement passed validity and reliability test.

Structural Equation Modelling (SEM) was used to estimate parameters of the structural model in figure 1. Complete standardized-solution computed by LISREL 9.2 maximum-likelihood methods are reported in table 2. The study found that the structural model specified variable of trusts, commitment and loyalty as the exogenous construct to endogenous mediating construct (friendship) in its relations with long term orientation. Meanwhile, variable dialectical process found only relates to long-term orientation, means that relations to friendship failed to be supportive by data.

Goodness-of-fit statistics, indicating the overall acceptability of the structural model analyzed, were acceptable: Chi-square = 137.86 for degree of freedom = 80, RMSEA = 0.07, GFI = 0.97, AGFI = 0.965. Moreover, all path coefficients were statistically significant with p < 0.05. The p values of estimates for the hypothesis test were
determined in two-tailed t test based on consideration of the model. The results of tested hypotheses can be seen on table 2.

4. Analysis and Discussion

4.1 Antecedents of Friendships on Co-Operative Organization

The study conform that trust, commitment and loyalty are the three basis antecedents for true friendship in the context of co-operative organizations. This finding had profound the important of friendship as the vital spirit in co-operative movement. Recalling Curl (2010), as social oriented organization co-operative relied more on social equity as driver to create better performance. Member’s productivity should be one of the important focuses on each decision and policy. Thus, managing co-operative organization would be the same as managing people. Member cannot be positioned only as customer of the organization, but more to productive asset of co-operative.

<table>
<thead>
<tr>
<th>Hypothesized relationship</th>
<th>Standardized solution</th>
<th>t-Value</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hypothesis 1. Trust -&gt; friendship (+)</td>
<td>1.38</td>
<td>12.88</td>
<td>Supported</td>
</tr>
<tr>
<td>Hypothesis 2. Commitment -&gt; friendship (+)</td>
<td>1.12</td>
<td>11.29</td>
<td>Supported</td>
</tr>
<tr>
<td>Hypothesis 3. Loyalty -&gt; friendship (+)</td>
<td>1.22</td>
<td>12.39</td>
<td>Supported</td>
</tr>
<tr>
<td>Hypothesis 4. Friendship -&gt; long term orientation (+)</td>
<td>0.83</td>
<td>6.86</td>
<td>Supported</td>
</tr>
<tr>
<td>Hypothesis 5. Dialectical process -&gt; friendship (+)</td>
<td>1.08</td>
<td>0.74</td>
<td>Not supported</td>
</tr>
<tr>
<td>Hypothesis 6. Dialectical process -&gt; long term orientation (+)</td>
<td>0.72</td>
<td>10.22</td>
<td>Supported</td>
</tr>
</tbody>
</table>

Number of observations 228
Maximum Likelihood ratio Chi-Square = 137.858
Normed Fit Index = 0.866
Goodness of Fit Index = 0.977
Adjusted Goodness of Fit Index = 0.965
Parsimony Goodness of Fit Index = 0.651

Source: data process results

One unique approach to implement people-management in co-operative organization is by deploying multidimensional friendship: (1) among related peers (for example, true friendship among management team, true friendship among advisory team and true friendship among controlling-team), (2) among members, (3) between each management level with their respective member and, (4) between co-operative as a unit with their respective stakeholder. Authors’ finding denotes friendship not only in terms of ‘I know you’ but more to intimacy level. This is why the authors tend to use the term ‘true-friendship’ instead of ‘friendship’.

True-friendship as mentioned by Rawlins (1992) and Sirvetsen (2003) requires huge social capital investment. Each party must share equal willingness to put efforts in exploring the basic character – including their life’s philosophy and paradigm. Senses of trust, commitment and loyalty were then acknowledged as the starting point for a true friendship in the co-operative movement. Therefore co-operative management must be able to provide strategy and policy to develop this spirits in the long run. Failure in
Prasetyo, Lo, Hu & Kuo

presenting the spirit of friendship in co-operative organization will leads to destructive phase in the long run. This was justified by hypothesis number four.

4.2 The role of Dialectical Process to Long Term Orientation

Another important finding is the role of dialectical process to long-term orientation among all members. As described on previous analysis, one major concern in friendship happened on its dialectical process. Consistent-dialog among member as well as with stakeholder is needed to enhance the productivity of dialectical process.

Positive signal on authors' findings shows that every dialectical process must ended with willingness to contribute more on the movement, even when the decision somewhat different from member's personal opinion. Accepting others idea and put more effort on the realization process of that idea is actually representing the maturity in friendship. This is important in co-operative organization to prolong the spirit of brotherhood among generations.

The study failed to have the evidence on how dialectic process relating to friendship. Having considered that the underpinning theory mentioned clearly regarding the relationship, the authors might conclude that this was caused by weakness in authors' data. Therefore future research must be able to deal with this.

4.3 Academic and Managerial Implications

The study succeeded in providing major contribution to co-operative management as a field of knowledge. As one of the branch from socio-economy, co-operative management had still seen as un-potential units. Most research focused on the influence power of co-operative as social-business entity to nation's economic performance (Nayak, 2012; Curl, 2010; Kelkar, 2010; Cole et al., 2009; Rauniyar and Kanbur, 2009; Gertler, 2001), while less attention to how the organization should be managed.

Authors' findings succeeded in addressing the important role of friendship and its dialectical process as means to shore the original spirit of the movement. The rise of modern management had acknowledged co-operative organization as traditional unit of economies. Though the study regarding that paradigm is still inclusive, in fact, many co-operative has been managed with modern management concept. Therefore, it is plausible to justify the role of ‘true-friendship’ in the organization.

The study acknowledged the application of Rawlin’s dialectical theory of friendship for the third economy sector organization. Mutual trust among member had proofed to be the first antecedents for true-friendship in which might call for commitment and loyalty. Putting the three components together, true-friendship in third sector might leads to long-term orientation. This would be the vital paradigm to achieve long-term goals.

Management of co-operative organization must fully address the importance of preserving ‘true-friendship’ among generations. The mechanism might work-well to keep the movement unto its original spirits.
5. Conclusions

The study began with addressing the role of friendship in creating long-term orientation for the third sector economy organization. Focusing on co-operative organization, the study proposed six hypotheses including three possible antecedents for friendship and dialectical process which culminated on the creation of long-term orientation. Deploying Structural Equation Modelling using LISREL 8 among 228 respondents, the study succeed in supporting five proposed hypotheses. Authors’ contributions are as follows: (1) the authors offer the use of term ‘true-friendship’ which elaborated among trust, commitment and loyalty (2) the study highlighted the needs to have positive dialectical process which should be considered as the unique power of co-operative organization.

From the findings, authors can see that authors’ sample supported the previous construct in some conditions. For research in cooperatives fields, the previous model needs to be adjusted before can be implemented in the study. Furthermore, the study failed to get the evidence of relationship between dialectical process and friendship. Data weakness in this construct is somewhat become problem, therefore future research must be able to deal with it, thus, enhancing more research in the following topics. Lastly, having considered the plethora studies of economic impact from this sector, future research must appointed micro-management relating to how co-operative must be managed properly, including on providing more data and information regarding how modern management concept is suitable for them.

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Prasetyo, Lo, Hu & Kuo


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